

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6339

BILL NUMBER: SB 125

NOTE PREPARED: Dec 12, 2008

BILL AMENDED:

SUBJECT: Income Tax Credit.

FIRST AUTHOR: Sen. Waltz

FIRST SPONSOR:

BILL STATUS: As Introduced

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: This bill provides a refundable Adjusted Gross Income tax credit for charitable donations to public or private elementary schools or high schools located in Indiana. It provides that the maximum individual taxpayer credit is \$1,000 in the case of a single return or \$2,000 in the case of a joint return. The bill also provides that the maximum corporate taxpayer credit is the greater of 10% of the corporation's total adjusted gross income tax liability or \$10,000.

Effective Date: January 1, 2010.

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the new tax credit. The DOR's current level of resources should be sufficient to implement the change.

Explanation of State Revenues: *Summary* - This bill provides an Adjusted Gross Income (AGI) tax credit to individuals and corporations that give charitable donations to Indiana K-12 schools and corporations or foundations operating for the benefit of Indiana public or private K-12 schools beginning in tax year 2010, and will decrease tax revenue to the General Fund by an indeterminable amount. The income tax credit for tax years beginning January 1, 2010, is limited to 50% of the charitable contributions or a maximum of \$1,000 for a single taxpayer or \$2,000 for taxpayers filing a joint return. The tax credit is limited to the greater of 10% of a corporation's adjusted gross income tax or \$10,000. If the credit exceeds the taxpayer's tax liability, the excess will be refunded.

Background Information - In tax year 2007, 93,671 individual income taxpayers claimed approximately \$9.1

M in tax credits for contributions to higher education institutions. Corporations claimed approximately \$73,000 in tax credits for contributions to higher education institutions in tax year 2007.

According to the Department of Education, \$18.0 M was contributed to public schools in FY 2004, \$19.9 M was contributed in FY 2005, \$27.3 M in FY 2006, \$19.8 M in FY 2007, and \$31.7 M in FY 2008 for an average annual increase of 15% in contributions. It is not known how many individuals or corporations made contributions which would be above the maximum allowable credit.

No information is available on how many individuals or corporations make contributions to private accredited schools. However, according to the Department of Education projections, there will be approximately 60,000 school children in private kindergartens through high schools for the 2008-2009 school year. If half of these families, or approximately 30,000 taxpayers, qualified for a \$2,000 tax credit for contributions to private schools, the reduction in income tax revenue would be \$60 M annually.

This tax credit is applicable to tax years beginning January 1, 2010, and would affect revenue collections in FY 2011. Revenue collected from the AGI tax on individuals and corporations is deposited in the state General Fund.

Explanation of Local Expenditures:

Explanation of Local Revenues: The tax credit may increase contributions to public schools resulting in additional revenue for school general funds.

State Agencies Affected: DOR.

Local Agencies Affected: Public school corporations.

Information Sources: Robert Walls, DOR, Tax Policy Division, 317-232-2104; Joel Hand, Indiana Department of Education, 317-232-6671.

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